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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

19 October 1955

STAFF MEMORANDUM NO. 77-55

SUBJECT: Current Economic Situation in Burma

The following review of the current situation in Burma was originally initiated in response to an informal suggestion that JCS might request a crash estimate on Burma. We believe that this suggestion has since been withdrawn. Moreover, we do not believe that conditions in Burma warrant a new estimate before the one now scheduled for the first quarter of 1956. Nevertheless, there will be continued interest in Burma during the current negotiations concerning Burma's request for a US loan and for assistance under PL 480.*

The Problem

1. Burma's economic situation has shown signs of serious deterioration over the past several months. The country's difficulty is essentially a balance of payments problem. Since World War II

* PL 480, Agricultural Trade Act of 1954. Pertinent sections are Section 104b which authorizes the use of some local currency for the purchase of strategic materials, and Section 304 which calls on the President to use the Act to assist friendly nations toward independence from trade with the Bloc and to insure that PL 480 aid does not increase availability of goods to Bloc countries.

NOTE: This memorandum has been coordinated at the working level with OCI.

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Burma's economy has depended principally on the export of rice, and this year's rice sales have not been enough to prevent a severe shortage of foreign exchange. The problem has been complicated by heavy government spending on an overly ambitious development program and an all out effort to solve Burma's insurgent problems by police action. If the situation is not assuaged soon the country will be forced to cut back development project expenditures further, and the full impact of the economic crisis would be felt around March or April of next year -- election time.

2. To solve its economic dilemma Burma has requested assistance from India, from the US, and from Japan. India has offered Burma the equivalent of about \$22 million in the form of export credit and some sterling. The US and Burma are currently discussing a PL 480 program of about \$20 million. The Burmese request for a straight \$50 million loan from the US has been deferred at Burma's suggestion, apparently because Burma does not presently wish to commit itself on export limitations required by the Bettle Act, and because the Indian loan plus US PL 480 assistance will probably meet the capital expenditure needs of this year's budget (FY, 1 October 1955- 30 September 1956). If the reported discussions between Japan and Burma for Japanese extension of \$12 million in export credits on manufactured goods are satisfactorily completed, the country's need for US assistance will be considerably lessened.

Foreign Policy Implications

3. Burma's request for US assistance appears based primarily on real economic need, and probably does not represent any basic shift in foreign policy. Burma continues to balance overtures to the Bloc and to the West against each other, maintaining its foreign policy of studied neutrality. Prime Minister U Nu indicated a preference for unilateral aid from the US at the time of his first request for US assistance, but since then India doubled her original loan offer and Burma has become wary of the effect Bettle Act limitations would have on her relations with

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Communist China. Over the long term, US aid to Burma could lead to decreased Burmese dependence on the Communist Bloc, and Burma's probable awareness of this has significance for the West. Another hopeful sign from the US point of view is the fact that Burma's request for aid from the US constitutes a sharp reversal of Burma's policy of nonacceptance of US aid, but should be viewed in the light of Burma's difficulties and US ability to provide what Burma wants. Burma has not received financial assistance from the US since 1953, when aid was canceled at Burma's request because of irritations arising from the KMT issue. As recently as December 1954, during his Peiping visit, Premier U Nu assured Chou En-lai that Burma would not accept US aid. Nevertheless, in view of Burma's heavy economic commitments to the Communist Bloc, her avowed policy of neutrality, her geographic proximity to Communist China, and the influence of India on her foreign policy, it does not appear that Burma will accept aid from the US to which any strings, such as those required by the Battice Act, are attached.

4. The Communist Bloc now buys approximately one-fourth of Burma's rice, and it has made several efforts to increase Burmese dependence by exploiting Burma's current economic difficulties. The timing of a recent Chinese offer (and the Burmese issuance of an export license) to buy 3,000 tons of rubber at prices slightly above the world market may indicate Peiping was informed in advance of U Nu's intention to approach the US for assistance, and hoped to interject Battice Act considerations into US-Burmese negotiations. The Chinese have also offered to purchase an additional 9,000 tons of rubber from Burma, to be paid for in sterling at prices 5 percent to 10 percent over world market prices. The two countries are currently negotiating for a renewal of their 1954 trade and barter agreement. Burma wishes to exchange 130,000 tons of rice with the CPT for 20 percent payment in sterling and the rest in Chinese manufactured commodities. In addition to trade agreements with Communist China, Burma has this year concluded agreements with Czechoslovakia, Hungary, the GDR, and the USSR. Burma also has major trade agreements with India, Japan, Ceylon, and Yugoslavia.

5. Burma's relations with Communist China have not been limited to economic matters. Cultural missions, agricultural missions, study groups, and religious missions have been exchanged

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by both countries. Burma's latest effort in the field of good-will diplomacy is a high level military mission currently in the Peking area for an eight-week period. The delegation was headed for the first two weeks before his return to Rangoon by General Nu Win, Burmese Supreme Commander. Premier U Nu has categorically assured the US Embassy that the mission would purchase no arms nor would it make any secret agreements while in the CPB. However, the mission includes most of Burma's top military brass and the Chinese are expected to make every effort to impress their military power and potentialities upon Burma. Burma needs military equipment, particularly small arms, and has discussed with the US the possibility of purchasing equipment from the US. The Chinese may offer to provide such equipment on favorable terms. The Chinese will probably be invited to reciprocate with a military mission to Burma in the near future.

Internal Political Stability

6. There have been no indications that the current economic crisis has caused serious differences among the country's leaders. Prolonged curtailment of Burma's economic program could, however, intensify existing stresses within the government. Minister of Industry U Kyaw Nyein is a supporter and instigator of several development programs, and he is believed to be opposed to further budget cuts, although he participated in a recent top level review of development program projects which recommended further cuts in the budget presented to Parliament on 1 October. In any case, Prime Minister U Nu's prestige is probably at a higher level than it has ever been, due to his intensified efforts in the role of world statesman and the success of his world tour. The Burmese press has given U Nu credit for a large share in the easing of world tensions, and also for the initiation of Sino-US talks in Geneva. U Nu's proffer of good offices toward a settlement of the Formosa question was also well received in Burma. It is probable that Nu's enthusiastic welcome in the US and the favorable impressions he received during his trip contributed to Burma's decision to request financial assistance from the US. Defense Minister Ba Swe and Kyaw Nyein are both supporters of U Nu's neutralist foreign policy for Burma, but have become increasingly wary of Communist intentions. There seems no reason to believe either one seriously opposes U Nu's foreign or domestic policies.

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7. The economic crisis will have an adverse effect on the government's long-standing campaign to put down the Karen and other insurgent groups, including Communist and KMT. The Burmese army has been totally committed since 1948 to establishing order and government control throughout the country. It has succeeded to the point where no insurgent group or combination of groups presently can seriously threaten military overthrow of the government. Nevertheless, economic necessity will force the government to curtail its campaign and set back the slow but steady progress of mopping up. Economic difficulties will also give the insurgents considerable propaganda grist and increase their pressure on the government.

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